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SUBJECT: Can't Please Everyone: Shanghai Party Secretary Describes  
City's Governance Challenges to Ambassador

REF: Shanghai 364

(U) CLASSIFIED BY AMB. CLARK T. RANDT, JR. FOR REASONS 1.4 (B) and  
(D).

11. (C) Summary: During a September 2 meeting with the Ambassador, Shanghai Party Secretary Yu Zhengsheng said managing differences among competing interest groups remains his biggest management challenge in China's most dynamic city. Making sure people do not get angry with the government will be an even greater challenge as Shanghai undergoes a difficult process of economic restructuring, transforming the local economy from its historical emphasis on the manufacturing sector to a greater emphasis on services, particularly financial services. Yu thanked the Ambassador for the role played by American companies in Shanghai's economic transformation and said he recognizes the importance of American firms' tax contributions to the city's coffers. Social issues, including the plight of migrant laborers and housing conditions in Shanghai, remain at the top of the municipal government's agenda, Yu said, adding that the best way to assess a social problem is to "go see it." As he did at his August 27 lunch with Department of Secretary of Labor Elaine Chao (reftel), Yu appeared quite comfortable sharing his views with the Ambassador. Shanghai Vice Mayor Tang Dengjie, addressing the September 2 American Chamber of Commerce Government Appreciation Dinner which the Ambassador also addressed, said Shanghai faces an increasingly complex economic environment but has been able to maintain sound economic growth. Shanghai welcomes U.S. investment and U.S. businesses, and the Vice Mayor encouraged U.S. businesses to actively participate in preparations for the 2010 Shanghai World Expo. End Summary.

Can't Please Everyone: Managing Problems in Shanghai  
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12. (C) Shanghai Party Secretary Yu Zhengsheng told the Ambassador on September 2 that his greatest challenge in Shanghai is managing differences between competing interest groups. In the midst of a rapidly changing economy, Yu said, interests (and interest groups) also are changing rapidly. Keeping the majority of the municipality's people happy is a difficult task, he said, and making quick adjustments and adapting to new realities is important to make sure people do not get angry. Promoting transparency in the budgeting process is the best way to alleviate many concerns, and in response to a question by the Ambassador, Yu stated that he posted Hubei Province's rural budget on the internet when he was Hubei's Party Secretary in order to publicize the level of subsidies provided to farmers. Making the budgeting process in Shanghai more transparent will be more complicated, however, but Yu said he hopes to gradually move in that direction during his time as Party

Secretary.

#### Shanghai's Economic Transformation

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13. (C) Keeping people happy will be even more difficult in the future as Shanghai undergoes its economic transformation from a manufacturing focus to greater emphasis on services. Yu said Shanghai's leaders recognize the importance of the service sector to fiscal stability, but he acknowledged that many leaders, including himself, are not as familiar with the service sector as they are with manufacturing. This unfamiliarity makes it tougher to map out a strategy or policy for developing the service sector. Shanghai wants to attract more services firms, particularly financial services, to the city in order to grow the municipality's tax base. Yu said he had not previously realized the full scope of the contribution made by the service sector to government revenue until after he transferred from his post as Hubei Provincial Party Secretary to Shanghai last year and saw first-hand the higher tax revenues enjoyed by Shanghai because of its growing service sector.

#### The Contribution of American Firms

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14. (C) Yu cited General Electric (GE) as a case in point, stating that the American company is one of Shanghai's largest tax payers at RMB 280 million (approximately USD 40 million) per year. With so many service sector firms setting up their regional headquarters in Shanghai, Yu said he hopes more U.S. companies, especially those in the financial sector, will establish offices in the city. Yu said the Shanghai American Chamber of Commerce Government Appreciation Dinner (which the Ambassador attended and addressed on the evening of September 2) demonstrated the strong potential for cooperation

between American investors and Shanghai. With many of Shanghai's manufacturers (such as those in the automobile and steel industries) reaching their full production capacity, the city and American firms should focus greater attention on the long-term development of the service sector, Yu said. Yu confided that he had considered attending this year's Government Appreciation Dinner, but decided to stick with tradition and not participate.

#### Dealing with Social Issues

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15. (C) Social issues remain some of Shanghai's biggest problems, particularly those that involve the municipality's large migrant worker population, Yu said. The Party Secretary observed that migrant workers comprise one-quarter of the municipality's population but as much as 70 to 80 percent of reported crimes in Shanghai are perpetrated by migrants. Yu said how the city deals with migrants therefore will have a big impact on social stability. He added that he is pleased Shanghai now waives tuition and text book fees for the children of migrant workers and offers health insurance to migrants.

#### Addressing Housing Problems

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16. (C) Yu lamented the disparity seen throughout Shanghai between sub-standard housing and new gleaming skyscrapers next door. Removing people from dilapidated apartments and moving them to a new location is a major challenge for the government, particularly when it comes to offering fair compensation packages, Yu said (see also reftel). He added that balancing the interests of individuals in poor housing with the interests of the community is difficult, and Shanghai's court system is not adequate to handle the burden. The best way to assess any social problem, including sub-standard housing, is to "go see it," Yu said, stating that he personally visited several apartment blocks that were flooded during Shanghai's record-breaking rainfall on August 25.

17. (U) Party Secretary Yu was accompanied at the meeting with the Ambassador by Fan Yufei, Deputy Director-General of the Shanghai Foreign Affairs Office, and Liu Guangyong (Evan Liu) and Chen Yanhua of that organization's Consulate Affairs Division.

Vice Mayor: Shanghai's Good Performance

¶8. (U) At the AmCham Government Appreciation Dinner, Shanghai Vice Mayor Tang Dengjie noted that Shanghai is facing an ever more complex economic environment inside and outside of China. Nonetheless, "under the wise guidance of the Central Government," Shanghai has maintained a sound momentum of growth. Shanghai's GDP through the first six months of 2008 had increased 10.3 percent (note: the first time in seventeen years that Shanghai's growth rate has lagged the national GDP growth rate (10.4 percent)), and while the city's fiscal revenue had increased 22.6 percent through the first seven months of ¶2008. Through July, year-to-date, imports and exports through Shanghai had increased more than 20 percent each, and contracted and realized foreign direct investment increased 22 and 17 percent respectively. Shanghai continues to attract U.S. and other multinational companies to establish regional headquarters, R&D centers or operations centers, and the Vice Mayor urged his American business audience to likewise do so. Shanghai will use all kinds of means to make a better business environment in Shanghai and maintain sound economic development. The United States is Shanghai's most important trade and investment partner, and in this thirtieth anniversary year of China's opening up and reform policy, Shanghai reaffirms its commitment to attracting U.S. investment and U.S. businesses. Vice Mayor Tang also highlighted that the 600-day action plan countdown for the 2010 Shanghai World Expo will be launched on September 8. He urged U.S. businesses to share wisdom and insights and to take active roles in preparations for the 2010 World Expo.

Bio Note: Party Secretary Yu Zhengsheng

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¶9. (C) As he did in his August 27 meeting with Secretary Chao, Yu appeared quite comfortable sharing his views. Less than one year after his appointment as Shanghai Party Secretary, Yu appeared to have a firm grasp of the issues and raised many of the same economic and social problems with the Ambassador as he did with Secretary Chao. Yu also is very familiar with the United States, having traveled there, he said, on numerous occasions in his previous roles

as Hubei Party Secretary, Minister of Construction, Mayor of Qingdao, and as a Deputy Director General in the Ministry of Electronics. Calling the United States his favorite travel destination, Yu ruminated on the differences between New York and Washington. He added that as a Politburo member, he was restricted to traveling overseas with Communist Party delegations. In the absence of party-to-party relations between political parties in the United States and China, travel to the United States is now more difficult for him.

¶10. (C) Yu seemed pleased when the Ambassador queried him on his role to promote transparency in local governance when serving in Hubei from 2002 to 2007 and to introduce housing reform as mayor of Yantai, Shandong Province in the late 1980s. Yu did not speak English during the meeting but demonstrated his understanding of American colloquial expressions when he used the Chinese term for "pork barrel spending" during a discussion on fiscal policy.

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